

Summary

Brazil has a large and diversified economy that offers U.S. companies many opportunities to export their goods and services. As Brazil's largest single trading partner, the U.S. enjoys a strong reputation in a variety of sectors. This report, which focuses on bank services, is one of a series published by the U.S. Commercial Service's team of sector experts throughout the year. We believe that the financial services sector offers U.S. companies excellent opportunities to do business in Brazil.

The largest in South America, Brazil's banking system is highly developed, efficient, and offers a wide range of financial services. The National financial System regulates banking and financial services, as well as insurance, and maintains strict accounting and operational supervision.

If you do not see an opportunity for your product or service here, please check out our other reports and consider contacting us directly to find out if we can help you export to Brazil. The first step to many U.S. companies is to visit our Country Commercial Guide at www.focusbrazil.org.br/ccg. In it you will find a good overview of business in Brazil.

Financial Services in Brazil



Financial services in Brazil, including banking, leasing and insurance services, are ruled by the Brazilian Constitution, which established the National Financial System (SFN in Portuguese). This system, headed by the Ministry of Finance, is organized as follows:

Regulatory Agencies:

- **National Monetary Council** (CMN in Portuguese), an official body whose main functions are to: maintain control of the medium of exchange and the circulation of money; establish directives for exchange policy and dealings in gold; manage credit and the provision of guarantees; regulate the establishment, operation and control of financial institutions; protect the liquidity and solvency of financial institutions; and guide the application of resources to promote the orderly development of the country.

- **Central Bank**, a federal agency entrusted to implement the CMN's policies to improve and stabilize the SFN. Its functions include control of the money supply, the physical issuance of currency, the regulation and control of financial institutions, control of foreign capital flows, credit policy, managing market liquidity levels, monitoring interest and exchange rates, and maintaining savings at levels compatible with the country's needs.
- **The Brazilian Securities Exchange Commission (CVM)** directly regulates stock exchanges, brokers, distributors, pension funds, mutual funds and leasing companies.
- **The National Council of Private Insurance (CNSP)**, comprised of the Ministry of Finance, the Superintendent of Private Insurance (SUSEP), the Brazilian Reinsurance Institute (IRB), the Central Bank, representatives of the Ministries of Justice and Planning, and four private insurance companies. The CNSP's responsibilities include: setting insurance policy guidelines and rules; regulating private insurance firm creation, organization, activities and supervision; establishing guidelines of insurance contracts; establishing reinsurance rules; and keeping general accounting and statistical records.
- **The Superintendence of Private Insurance (SUSEP)**, an independent agency subject to the Ministry of Finance through the CNSP. It monitors the insurance and private pension market through the solvency index; establishes operational risk limits; supervises technical reserves; and regulates open pension funds (equivalent to the U.S. KOLC) and insurance brokers.

Classification of institutions under the SFN:

a) **Financial Institutions:** Banking and Non-Banking

- Banking: multiple banks; commercial banks; savings and loan banks; cooperative banks and credit cooperatives.
- Non-Banking: investment banks; development banks; finance companies, saving & loan companies and mortgage companies.

b) **Ancillary Institutions:** security dealers and stockbrokers.

c) **Other entities** (not considered financial institutions but subject to CMN and Central Bank supervision): consortium management; commercial leasing companies; advancement and development agencies; investment funds and companies; savings and loan associations; small business credit companies and factoring companies.

d) **Insurance and capitalization companies and private pension funds:** these organizations are not considered financial institutions and are not part of the SFN, however, the CMN has the authority to regulate their investment portfolios.

(Sources: Central Bank of Brazil, Price Waterhouse Coopers)

Market Overview

The largest in South America, Brazil's banking system is highly developed, efficient, and offers a wide range of financial services. Brazil's Central Bank regulates banking and financial services, and maintains strict accounting and operational supervision.

The Brazilian financial sector is large and sophisticated due in part to Brazil's historical periods of high inflation when good financial management was critical for a firm's survival. Despite moderate inflation rates, bank-lending spreads remain extremely high due to taxation, risk, and administrative overhead. The Central Bank has drawn attention to this phenomenon and has proposed a number of measures aimed at reducing the margin charged by banks.

With the elimination of high inflation in the mid-1990s and the disappearance of so-called "float income" due to high inflation, the banking sector entered a period of consolidation in 1995. Domestic banks began to experience liquidity problems, and 1996 and 1997 were marked by a series of failures, mergers, and acquisitions. Three of the country's ten largest banks failed and were taken over by other banks, and some 20 smaller banks were liquidated.

The public-owned federal banks are listed below:

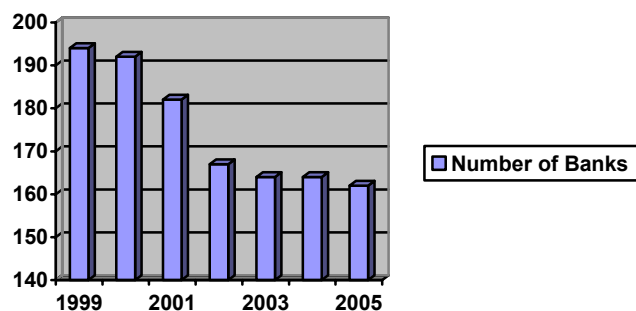
- Banco do Brasil: finances both public and private sector projects, and is a primary lender to the agricultural sector;
- National Economic and Social Development Bank (BNDES in Portuguese): though not a commercial bank, it provides long-term financing and administers the privatization program;
- Caixa Econômica Federal: finances social programs, including housing and education, for low-income citizens. It is the principal governmental entity responsible for financing urban development and sanitation.

The number of state-level banking institutions has fallen in recent years due to the central government's financial and banking reform efforts. Three of Brazil's states still have state-owned or state-controlled banks offering public and private banking services: the states of Santa Catarina, Ceará and Piauí.

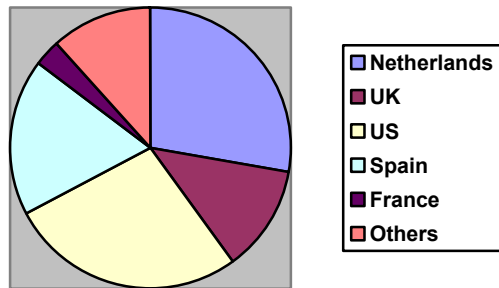
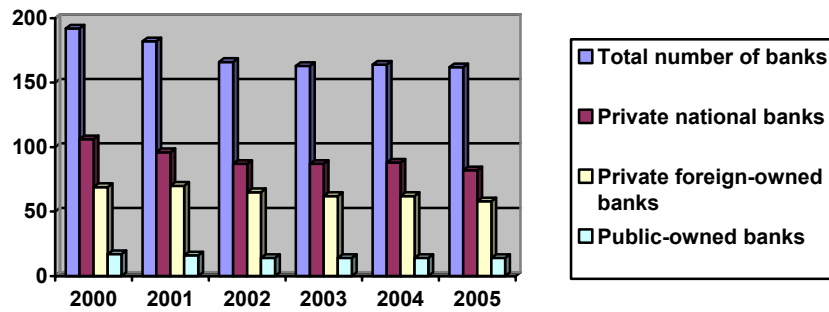
Banks owned by state governments in particular were burdened with large amounts of unserved debts. Most state banks were taken over by the federal government, liquidated, privatized, or transformed into development agencies. The government-owned banks were also undercapitalized and carried poorly performing loans, mainly the result of the banks undertaking loss-generating "social" lending. In June 2001, the government announced plans to re-capitalize the banks and clean up their balance sheets.

As a result of these failures, the Central Bank strengthened its bank audits, implemented further stringent internal control requirements, and tightened its capital adequacy rules to reflect risk more accurately. It also established loan classification and provisioning requirements. These measures are applied to private and public-owned banks alike.

Number of banks and their origins:



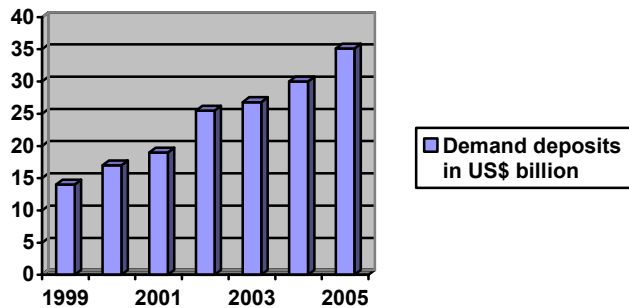
Source: Central Bank/Banco do Brasil/Brazilian Federation of Banks (Febraban in Portuguese)



Source: Central Bank/Brazilian Federation of Banks (Febraban)

Deposits

Total demand deposits in the market grew from US\$14 billion in 1999 to US\$35 billion in 2005 (an increase of over 100%).



Source: Central Bank/Banco do Brasil

Brazil's ten largest banks in assets - Public and private

According to the March 17, 2006 issue of the Brazilian edition of *Forbes Magazine*, the results obtained in 2005 by Brazilian banks place the two biggest private banks, Bradesco and Itaú, among the ten most profitable in Latin America and the United States. The profitability over net equity of Itaú (35.3%), of Bradesco (32.1%), of Banco do Brasil (26.8%), of Banespa (25.5%) and of Unibanco (24.2%) are superior to that of the 20 biggest American banks, which marginally exceed 20%.

A good part of this profitability can be attributed to the high Brazilian interest rates. For some analysts, the reduction in interest rates currently underway will cause profits to grow at a slower pace beginning this year.

However, others believe that the growth rate will remain steady because the banks are finding new niche markets, and are directing more resources into operations with individual clients.

BANK	TOTAL ASSETS (US\$ billion)
Banco do Brasil	84.3
Caixa Econômica Federal	50.2
Bradesco	46.9
Itaú	29.5
Unibanco	20.0
ABN Amro Real	14.6
Banespa (*1)	10.3
Safra	10.1
Santander Brasil (*1)	9.6
Nossa Caixa	9.2

Source: Central Bank
(December 2004)

BANK	TOTAL ASSETS (US\$ billion)
Banco do Brasil	104.3
Caixa Econômica Federal	81.7
Bradesco	74.0
Itaú	58.0
Unibanco	32.0
ABN Amro Real	30.6
Santander	22.7
HSBC	20.5
Safra	17.4
Votorantim	17.2

Source: Central Bank and Febraban
(December 2005)

Notes.

1. The reason for such a difference in the assets of the banks listed above between December 2004 and 2005 is mainly the exchange rate (US\$ 1,00 = R\$ 2.6 in December 2004 and US\$ 1,00 = R\$ 2.3 in December 2005).

2. Banco do Brasil, Caixa Economica Federal (the Federal Savings Bank), and the National Bank for Economic and Social Development (BNDES) are owned by the federal government. Nossa Caixa is owned by the state of São Paulo. Bradesco, Itaú, Unibanco, and Safra are Brazilian-owned private banks. Santander (*1: Banespa belongs to Santander), HSBC and ABN Amro are foreign banks (owned respectively by the Spanish, British and Dutch).

Market Trends

According to a survey held by the Brazilian Bank Federation (Febraban), the banking industry is optimistic about 2006. Projections indicate that growth of credit operations will remain steady: for individuals, a 25% growth rate is expected, and for total portfolios, a rate of 17%.

Even though 2006 will be an election year in Brazil, the industry believes that factors such as favorable international conditions, current export figures, credit expansion and a projected industrial expansion of 4% will help the Brazilian economy.

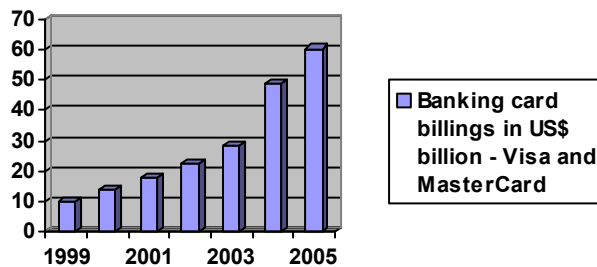
Banks expect the basic interest rate to reach 15.2% by the end of 2006 and fall to 13.9% by the end of 2007, which would generate a credit expansion. The economy is expected to grow by 3.5% in both 2006 and 2007, which is a higher rate than in 2005.

Types of Banking Services

Private sector banks are often organized as financial conglomerates offering a full range of financial services through subsidiaries and associated companies. Such services include:

1. Banking cards

The credit card market in Brazil is continuously expanding, eroding the traditional dominance of checks (though the latter remains the leading non-cash payment method). The credit card sector is expected to grow 25% in 2006, reaching revenues of US\$75 billion. MasterCard and Visa control the debit and credit card markets in Brazil.



Sources: Central Bank, Banco do Brasil, Brazilian Association of Credit Cards (Abecs) and Euromonitor International.

2. E-Banking

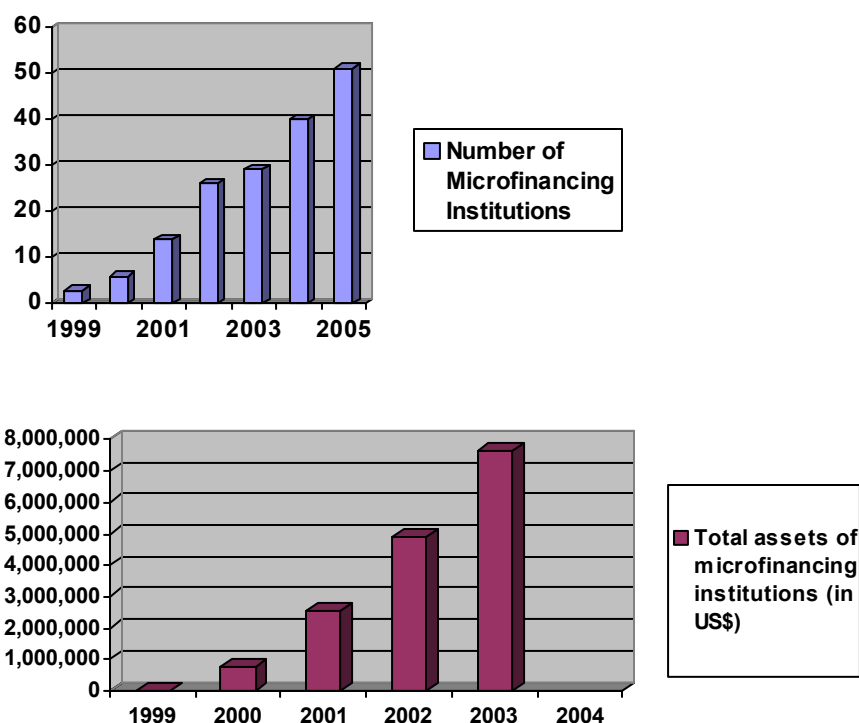
Brazil leads the introduction of E-banking in Latin America. According to FEBRABAN -- Brazilian National Bank Federation -- the Brazilian banking sector invested US\$7.2 billion in technology in 2005. The Brazilian banking system is considered one of the five most modern in the world of online banking. In order to deal with the high inflation and foreign exchange swings faced by the country until the early 1990s, major banks built an advanced system that produced the services offered today. Currently, 75% of all bank transactions are electronic.

3. ATM – Automated Teller Machines

Brazil is relatively advanced in banking technologies and automation services. The degree of development in this sector is comparable to developed countries. In 1997, there were 8,337 ATMs (Automated Teller Machines) installed in banks, gas stations and convenience stores. In 2005, Brazil had 90,000 ATM terminals, or 7% of the world's total.

4. Micro-credit

Though Brazil has a significant micro-finance market, this type of financing has not achieved the same penetration as in other Latin American countries. Despite its minor significance compared to other segments of finance, micro-credit has registered consistent growth since its creation in 1999 in the number of institutions offering this service and in terms of assets.



Source: Brazilian Association of Microcredit Operators (ABCRED in Portuguese).

U.S. Participation:

U.S. commercial and investment banks have been in Brazil since 1915. In terms of assets, BankBoston, Citibank, Banco Ford, JP Morgan & Chase and Banco GM were among the top 50 institutions in the country as of December 2005 with BankBoston and Citibank ranking 14th and 15th, respectively.

Main U.S. banks in Brazil in assets (US\$ billion):

BankBoston (*)	10.0
Citibank	9.6
J.P. Morgan	4.3

(*) Banco Itaú acquired BankBoston on May 2, 2006, for US\$ 2.2 billion.

List of other U.S. banks with presence in Brazil:

American Express Bank Ltd.
Bank Audi
Bank of America - Illinois
Bank of America International of Florida
Bank of America International of Texas
Bank of America National Trust and Savings Association
Bank Ford
Bank General Motors
Bank John Deere
Bank Merrill Lynch
Bankers Trust Company
Bear Stearns & Co., Inc.

Capital Bank
Cargill Bank
Caterpillar Financial
Chemical Bank
Corestates Bank N.A.
Delta National Bank and Trust Company of New York
First Interstate Bank of California
First Republic Bank Dallas, N.A.
GE Capital
Goldman Sachs
Harris Trust and Savings Bank
IBM (Brazil) Leasing
Manufacturers Hanover Trust Company
Mellon Bank
Merrill Lynch
Morgan Stanley
M & T Bank
Nations Bank
NCNB National Bank of North Carolina
Pinebank
Pittsburgh National Bank
Security Pacific National Bank
Texas Commerce Bank N.A.
UBS Securities Inc. (São Paulo)
Union Bank of California, N.A.
The Bank of New York
Wachovia Bank
(Source : *Brazilian Banking Association – FEBRABAN*)

Best Prospects:

Partnership with Brazilian banks: many of Brazil's largest banks, such as Bradesco, have no partnership with foreign groups. However, by early 2006, Itaú's acquisition of BankBoston, and the acquisition of Banco Pactual by the Swiss Group SBS were completed. Furthermore, J.P. Morgan is seeking acquisition opportunities to enter Brazil's highly competitive retail banking market, as reported by bank chair and CEO William Harrison in June 2005, and as announced by BN Americas and the Brazilian financial daily, *Valor Econômico*. Trade sources estimate that partnerships with large banks or retail institutions will drive the market as early as the second semester of 2006.

ATMs: companies active in this area may be interested in installing ATMs in places such as hotels and shops, since the use of such equipment is widespread in Brazil.

Micro-credit: there is enormous room for growth, for instance through partnerships with local banks, and governmental or private entities.

Smart cards: there are opportunities for Smart Card companies in banking, security, and biometric access to banks.

E-Banking: U.S. companies will find great opportunities in this area for: hardware/software equipment and services, technical support, consulting and training, data-processing, security, systems integration, and outsourcing. Brazil has a 3.4% share of the world's E-banking market. Trade sources estimate that there will be huge business opportunities in Information Technology Outsourcing (ITO) and Business Process Outsourcing (BPO).

T-banking: in the future, once Brazil decides on its Digital TV standard, “T-banking” or banking operations via TV monitor will be an attractive niche.

Telecommunications: wireless technology (cell phone bank services).

IT: solutions such as billing, B2B and others.

Electronic security: biometrics, access control, CCTV.

Remittance services: the Brazilian market exceeds US\$ 9 billion.

Outsourcing: shared services such as hardware and software maintenance, telecommunications, consulting, help desks and printing services are also niche sectors, as outsourcing services are an integral part of the banking industry in Brazil.

Market Entry

In most cases, a local representative is helpful in dealing with banks. We also recommend a local agent or distributor to facilitate sales products and services. It is up to you and your local partner to negotiate the type of representation that you decide to contract; however, we suggest consulting with a Brazilian law firm before signing any type of agreement.

Joint Ventures are a common practice in Brazil. It allows U.S. firms, in tandem with their Brazilian partners, to compete for government bids in industries such as telecommunications and IT.

Setting up new companies is relatively complex, although the Ministry of Development has signaled its desire to simplify the process. Acquisitions of existing companies are monitored by the Central Bank. Corporations (Sociedades Anônimas) and limited liability companies (Companhias Limitadas) are relatively easy to form. Local law requires that foreign capital be registered with the Central Bank. Failure to do so may cause serious problems related to access to foreign exchange, capital repatriation, and profit remittance.

Note that, among the criteria adopted by the Brazilian banks to select a supplier, corporate and social responsibility, ethical practices (client privacy, information management issues) and environmental aspects are a priority.

Important Contacts

FEBRABAN – Brazilian Federation of Banks
Rua Libero Badaró, 425
01069-900 São Paulo, Brazil
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Fax: (55 11) 3144-8486
E-mail: secretaria.geral@febraban.org.br
Website: www.febraban.org.br

Banco Central do Brasil (Brazilian Central Bank)
SBS Quadra 3 – Bloco B – Edifício Sede
70074-900 Brasília, Brazil
Phone: (55 61) 3414-1360
Fax: (55 61) 3414-2410
Website: www.bcb.gov.br

ABCRED - Brazilian Association of Microcredit Operators
Rua do Paraíso, 585

04103-001 São Paulo, Brazil
Phone: (55 11) 3541-2271
Fax: (55 11) 3541-2271
E-mail: abcred@abcred.org.br
Website: www.abcred.org.br

Major events:

CIAB - IT Congress and Exhibition of Financial Institutions (June 21-23, 2006, Transamérica Expo Center, São Paulo)
Organizer: FEBRABAN
Contact: Ms. Nair Macedo, Events Manager
Phone: (55 11) 3244-9860
Fax: (55 11) 3104-4190
E-mail: eventos@febraban.org.br
Website: www.ciab.com.br

ABACO - Exhibition and Conference on Banking and Retail Automation (October 18-19, 2006, Frei Caneca Convention Center, São Paulo)
Organizer: DIP & Associados
Contact: Mr. Gilberto Dib
Phone: (55 11) 5561-2562
Fax: (55 11) 5561-5489
E-mail: dib@dib.com.br
Website: www.ciab.com.br

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